Reagan's Tax Plan: Exhortation at the White House

Reagan, Setting a Populist Strategy, Said to Stress Wisdom of the People

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WASHINGTON, May 28 — President Reagan today outlined the strategy he will use to sell his landmark tax simplification plan as he braced his senior aides for a long and difficult battle.

Mr. Reagan, offering the image of his Presidency at halftime of a critical football game, said that the proposal would pit the wisdom of the American people against the wisdom of the Washington establishment. In the end Mr. Reagan reportedly said, the wisdom of the people would prevail.

According to aides present at the private meeting, Mr. Reagan elaborated on his populist theme as follows: "The premise the founding fathers built our government on is that over the long run the uncommon wisdom of the common people is far greater than that found in any gathering of Washington officials or politicians.

Mr. Reagan presented at the private gathering and later in a national television speech the central themes that will govern the Administration's strategy for selling the proposal in what is expected to be a protracted Congressional battle.

'Second American Revolution'

The guiding theme, Administration officials say, is that the proposal represents the "second American Revolution," in the sense that the first was fueled by resentment to unfair taxation. In promoting the tax plan in the days ahead, Mr. Reagan will argue that the current system is unfair because it is overloaded with preferential treatment for those individuals and corporations that should be paying higher taxes.

In addition, the strategy calls for the President to portray the proposal as pro-family by emphasizing that it will nearly double the personal exemption and will reduce the taxes many currently are paying. Similarly, he will sell it as pro-growth by stressing that it contains incentives for new businesses and lowers the top corporate tax rate, officials say.

Mr. Reagan will make such pitches in a variety of carefully planned appearances on Thursday and Friday when he travels to Williamsburg, Va., Oshkosh, Wis., and Malvern, Pa.

Administration officials say the strategy will be aimed at forcing Congress into a "binary choice" of having to vote yes or no on simplifying the tax code. That strategy was successful in 1981 when Mr. Reagan went over the head of Congress to win support for his budget and tax reduction plans.

Mr. Reagan, in the senior staff pep rally, said, "All the people ever want of their elected or appointed leaders is that we go to them directly, give them the unvarnished facts and rely on them to make the right decisions."

In addition, The President borrowed from his most famous movie — about Knute Rockne, the legendary Notre Dame football coach — as he portrayed his Administration at halftime and poised to begin a critical new round of battle.

In the 1940 movie, "Knute Rockne — All-American," Mr. Reagan played the role of George Gipp, a football star who died of pneumonia. On his death bed, the player told coach Rockne that if things got tough, that maybe someday he could tell the team "to go out there and win just once for the Gipper."

'Really Great Reform

Mr. Reagan told the aides that they are "not winning one for the Gipper, but are winning it for the American people." He also called the proposal a "really great reform."

Over the next few days, Mr. Reagan will focus all of his public appearances on the simplification measure as Administration officials also seek support on Capitol Hill and through the airwaves.

The Administration's strategy for selling the proposal will be to sketch in the public mind the broad themes of the 400-page package, a White House aide said. The aide said the effort would be designed to overcome possible confusion over what Mr. Reagan was proposing and what others have urged in a variety of tax simplification bills that have been floated on Capitol Hill.

"We first want to sketch out an outline of what the Reagan plan means to the American people, to overcome the confusion," the senior official said.

To accomplish that, Administration officials said, Mr. Reagan will devote each of his out-of-town appearances this week to a central theme. In Williamsburg, he will appear at the Virginia House of Burgesses, and assert that the plan reflects the "second American Revolution.

Later he will go to Oshkosh to suggest that the plan is aimed at middle America and that one of its central features is that it is pro-family and for working men.

The third theme, that the plan is pro-growth, will be stressed on Friday when Mr. Reagan visits the high-tech community of Malvern, Pa., outside Philadelphia. Administration officials said Mr. Reagan can argue that the plan's features would offer increased economic opportunity and business growth.

'For Middle America'

"What we will be trying to do is to say that the plan is for middle America, yuppies and for growth," said one senior White House official, who said that he believed that such an image could sell.

Administration officials have said in recent days that Mr. Reagan hopes to use a populist appeal that has been common to his political arsenal since he first sought the Presidency in 1976 and that played a role in the passage of significant spending cuts and tax reduction measures in his first term.

Mr. Reagan sounded that chord today when, according to one senior aide, he told his appointees that, "We believe that the Founding Fathers believed that America's greatness and her economic and social progress comes from the people and not the artful dodgers who too often bring forth stealthifying monsters like our present tax code."

But in going to the American public, the Administration will also be seeking to establish a coalition that can support the proposal and would in effect battle the Washington special interests that Mr. Reagan has said will be fighting the plan, the officials said.

Briefings Scheduled

With the release of the plan, Administration officials will begin on Wednesday a number of briefings. At one, there will be leaders from black, Hispanic, religious, veterans' and other groups, while two others will include representatives of trade associations, business groups and Washington lobbying groups. A fourth session will be devoted exclusively to "pro-family" type organizations.

While focusing on these groups this week, the Administration is planning to reach out in an even more direct way to the business community next week with a briefing at the White House on Tuesday for the chief executives of a number of leading corporations.

The strategy, which has been in the planning stages for several weeks, bears the marked imprint of Patrick J. Buchanan, who one official said has played a major role in the effort at forging the coalition behind the plan.

But while Mr. Buchanan will be tested, whether the plan will ultimately succeed depends on Mr. Reagan, White House officials said. "It is no longer Don Regan's plan or Jim Baker's plan; it is the President's plan," Mr. Regan said at the rally of senior officials as he introduced the President.

Reagan's Tax Proposal: Time Is Ripe

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with any certainty how the members of Congress, and especially the Democrats who control the House of Representatives, will modify the plan.

It is in the House that the President faces his toughest going. By granting detail-by-detail concessions to various interest groups, the President and his aides may have pre-empted the deal-making prerogatives of Congress, and thus hurt the prospects for the overhaul that all, Republicans and Democrats, profess to support.

Of the various components of the plan, none illustrates the President's commitment to smaller government than his insistence upon repealing the tax deduction for state and local taxes. Only a half-dozen states, foremost among them New York, objected to the provision, and those are big-government, high-tax states.

By repealing the deduction and forcing taxpayers of those states to pay somewhat higher Federal taxes, President Reagan forces upon the states the same choice he has forced upon Congress — to cut spending and services and reduce the size of government, or to turn instead to politically unpalatable tax increases.

The proposal also makes important concessions to small business, in allowing them lower tax rates than bigger businesses. And it favors the young technology-based industries that invest relatively little in heavy equipment and currently benefit from fewer tax breaks than most of the giants of heavy industry that would now lose some of their special breaks.

In effect, the President has turned his back on the giants of industry — but he makes an important bow to the high-paid executives who run them, and all other wealthy Americans. With the exception of those who rely heavily on the many tax shelters that the President would now repeal, the rich, like the working poor, stand to gain more personally from the tax plan than everyone else.

One contentious element of the President's plan is a $5,000 limit on the deduction taxpayers are allowed on interest payments for loans other than home mortgages. But it applies to interest payments exceeding a taxpayer's investment income — the dividend, interest and rental income from assets.

No Real Constraint

Thus, wealthy taxpayers with abundant unearned income from such investments face no real constraint, while middle-income taxpayers who borrow to buy second homes, automobiles and store purchases but have no income-producing investments could lose a part of their deduction.

In addition, the President would not only reduce the tax on capital gains from which the rich derive much of their income. He would also reduce the maximum income tax rate from 50 percent to 35 percent, and from 70 percent four years ago. It means that taxpayers with incomes of hundreds of thousands of dollars, many of them Reagan supporters and campaign contributors, would end up with proportionately far more, after taxes, than they do now.

"From what I can tell, they have changed the progressivity of the system," said William A. Niskanen, a former member of President Reagan's Council of Economic Advisers and now chairman of the Cato Institute, a public-policy research organization here. "It's more progressive from the poverty line up to incomes of about $50,000, and above that it's less progressive."

Yet most individuals, even the middle income groups who gain relatively less than the poor and the rich, stand to benefit.

Individuals to Industry

The President manages to reduce individual taxes, while at the same time generating the same tax revenue the Government now collects by shifting more of the tax burden from individuals to corporations, especially those, such as banks, insurers, utilities, chemical companies, paper companies and others that currently pay 10 percent or less of their profits in taxes.

But in shifting the tax burden from individuals to industry, the President may sacrifice another of his oft-stated goals — long-term economic growth.

The supply-side economists, whose theories underpin much of the tax plan, dispute this, arguing that lower individual income taxes will inspire a surge of investment by the public. But their critics are quick to note that following the tax cuts in 1981, consumers went on a spending binge, and saving actually declined.

Comparing the Proposals With Current Law

	1986 under current law	Treasury proposal for 1986	President's proposal for 1986
Individual Tax Rates	14 rate brackets from 11% to 50%	Three rate brackets: 15%, 25% and 35%	Three rate brackets: 15%, 25% and 35%
Exemptions			
Self, spouse	$1,080	$2,000	$2,000
Dependents	$1,080	$2,000	$2,000
Zero-Bracket Amounts			
Single returns	$2,480	$2,800	$2,900
Joint returns	$3,670	$3,800	$4,000
Heads of households	$2,480	$3,500	$3,600
Indexing for Inflation			
Rate brackets, exemptions and zero-bracket amounts	Yes	Yes	Yes
Personal Deductions			
Mortgage interest	Deductible	Deductible for principal residences	Deductible for principal residences
Other personal interest	Deductible	Deduction limited to $5,000 over investment income	Deduction limited to $5,000 over investment income
Medical expenses	Deductible above 5% of adjusted gross income	Deductible above 5% of adjusted gross income	Deductible above 5% of adjusted gross income
Charitable contributions	Deductible	Deductible above 2% of adjusted gross income, but no deduction for unrealized gains on contributed property	Deductible only for those who itemize deductions
State and local income taxes	Deductible	Not deductible	Not deductible
Other state and local taxes	Deductible	Not deductible unless incurred in business activity	Not deductible unless incurred in business activity.
Two-earner deduction	Yes	No	No
Other Individual Items			
Earned income credit	Yes	Yes, indexed	Increased and indexed
Child care credit	Yes	Changed to a deduction	Changed to a deduction
Unemployment compensation	Taxed if adjusted gross income over $12,000 ($18,000 if married)	Taxed	Taxed
Workers' Compensation	Not taxed	Taxed; eligible for special credit for elderly and disabled	Taxed; eligible for special credit for elderly and disabled
Entertainment expenses	Deductible	Not deductible	Not deductible
Business meals and travel expenses	Deductible	Limit on deductions	Limit on deductions
Income shifting to children through trusts	Permitted	Curtailed	Curtailed
Retirement			
Individual Retirement Accounts	$2,000 tax-deferred contribution permitted each year	$2,500 tax-deferred contribution permitted each year	$2,000 tax-deferred contribution permitted each year
Spousal I.R.A.	$250	$2,500	$2,000
Corporate pensions	Tax deferred	Tax deferred	Tax deferred
Social Security	Generally not taxed	Generally not taxed	Generally not taxed
Fringe Benefits			
Health insurance	Excluded from taxable income	Exclusion is capped	Limited amount taxed
Group life and legal insurance	Excluded from taxable income	Taxed	Not taxed
Capital and Business Taxes			
Corporate tax rates	Graduated up to 46%	33% flat rate	Graduated up to 33%
Dividend relief	$100/$200 exclusion	Exclusion repealed, 50% dividend-paid deduction	Exclusion repealed, 10% dividend-paid deduction
Depreciation	Accelerated Cost Recovery System, which provided for fast write-offs	Economic depreciation, indexed to inflation	Indexed, with investment incentive
Investment Tax Credit	6% to 10%	Repealed	Repealed
Capital gains	60% excluded from taxation	Taxed as ordinary income, indexed to inflation	50% excluded from taxation
Interest income/expense	Fully taxable/deductible	Indexed to inflation, partially excludable/non-deductible	Fully taxable/deductible
Business Items			
Last-in, first-out inventory accounting conformity required	Yes	No	No
First-in, first-out inventory accounting	Not indexed to inflation	Indexed to inflation	Indexed to inflation
Uniform cost production rules	No	Yes	Yes
Bad debt reserve deduction	Yes	No	No
Installment sales	Deferral	No deferral if receivables pledged	Generally no deferral if receivables pledged
Oil Industry			
Percentage depletion	Yes	No, indexed cost of depletion	Phased out with stripper exception
Expensing of intangible drilling costs	Yes	No	Yes
Windfall profits tax	Yes	Accelerated phase out	Phase out in 1991
Financial Institutions			
Special bad debt deduction	Yes	No	No
Deduction for interest to carry tax-exempt securities	Yes	No	No
Exemption for credit unions	Yes	No	Some
Deferral for life insurance investment income and annuity income	Yes	No	Only for existing policies
Municipal Bonds			
Public purpose	Tax-exempt	Tax-exempt	Tax-exempt
Private purpose	Tax-exempt	Taxed	Taxed

Sources: Treasury Department, Office of Tax Analysis, White House

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